Report Number : ICRR0021080

1. Project Data

Project ID P066488	**Project Name** KE-Municipal Program (FY10)
Country Kenya	**Practice Area(Lead)** Social, Urban, Rural and Resilience Global Practice

L/C/TF Number(s) IDA-47140,TF-17423	**Closing Date (Original)** 30-Aug-2015	**Total Project Cost (USD)** 123,660,000.00
Bank Approval Date 04-May-2010	**Closing Date (Actual)** 31-May-2017	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	100,000,000.00	11,962,156.00
Revised Commitment	99,999,893.52	11,962,156.00
Actual	95,951,460.08	11,962,156.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

Both the Financing Agreement (FA) and the Project Appraisal Document (PAD) stated that the Project Development Objective (PDO) of this Kenya Municipal Program (KMP) was "to strengthen local governance and improve service delivery in selected municipalities" (FA, p.4 and PAD, paragraph 20). The KMP was expected to be implemented in two phases using an Adaptable Program Loan (APL) financing instrument - APL1 and APL2. APL 1 had the same PDO as the overall program. When APL1 was restructured in 2015, however, APL2 was cancelled and APL1 became a stand-alone project that retained the name of KMP. The March 31, 2015 amendment to the FA also revised the PDO as aiming "to improve planning and delivery of infrastructure services in urban areas in selected counties." (Amended FA, p.6).

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

09-Mar-2015

c. Will a split evaluation be undertaken?

Yes

d. Components

1: Institutional Strengthening (US$15 million at appraisal, of which US$9 million was IDA; US$8.41 million actual). This component financed institutional strengthening, capacity building, and policy development at the national and sub-national levels. These activities were later dropped (see below Section 4, Efficacy) during the 2015 Restructuring because the mandate of strengthening subnational institutions shifted from the former Ministry of Local Government (MoLG) to the Ministry of Devolution and Planning (MDP) following significant institutional changes introduced by the 2010 Constitution and 2013 elections. In addition, new county governments were created in place of municipalities and assumed the urban administration functions. Under the 2015 Restructuring this component financed activities to (i) strengthen the county administrations' capacity to manage the 15 urban centers benefiting from the program and (ii) establish and support structures of urban management. This component also financed a framework for preparing county integrated development plans, and trained all counties (not just those counties with KMP-supported urban centers) in preparing integrated urban development plans. Support from the national government was based on these plans.

2: Participatory strategic urban development planning (US$15.00 million at appraisal, of which US$8.00 million was IDA; US$13.00 million actual). This component financed the preparation of strategic urban development plans, including physical structure plans and capital investment plans developed in consultation with stakeholders; community mobilization and participation in planning processes and other program-related initiatives; and the strengthening of municipal planning offices.

3: Investment in infrastructure and service delivery (US$130 million at appraisal, of which US$79 million was IDA; US$97.00 million actual). This component financed investments in infrastructure and service delivery, including roads, storm water drainage, pedestrian and bicycle pathways, street and security lighting, fire engines, and markets.

4: Project management, monitoring and evaluation (US$5 million at appraisal, of which US$4 million was IDA; US$3.66 million actual). This component financed activities associated with project implementation, and a monitoring and evaluation (M&E) system.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: Total project cost was appraised at US$165.62 million, which was revised during the 2015 Restructuring to US$122.07 million. The total disbursement was US$107.91 million at project closing. The total project cost was revised during the 2015 Restructuring because France withdrew its original co-financing commitment of US$45 million (see below).

Financing: The International Development Association (IDA) financed this project with a US$100 million Adaptable Program Loan (APL). The Swedish International Development Cooperation Agency (SIDA) committed US$10 million at appraisal (revised to US$13.66 million during the 2015 Restructuring, US$12.07 million actual). France's *Agence Francaise de Developpement* (AFD) originally committed US$45 million in co-financing but withdrew because by the time of the 2013 Mid Term Review (MTR), the Bank and AFD had not yet agreed on the overall administration terms.

Borrower Contribution: The Borrower committed and fully disbursed US$10 million by project closing.

Dates: The project became effective on June 28, 2010. Kenya adopted a new constitution in 2010, which became effective two years later. The new constitution affected the implementation arrangements under the project, which led to the September 16, 2013 Mid Term Review (MTR). The MTR led to the March 2015 Restructuring, which extended the closing date from August 31, 2015 to May 31, 2017. In addition to extending the closing date, the 2015 Restructuring also revised the PDO, components and costs, financing plan, results framework, institutional arrangement, procurement, implementing agency, and implementation schedule.

3. Relevance of Objectives

Rationale

The original and revised PDO were relevant to the country's development plan, Vision 2030, a broad based agenda with three pillars - social, economic, and political. The second Medium Term Plan (MTP) for 2013-2017 operationalized this vision and pointed to decentralization as key to improve governance, strengthen accountability and public service delivery at local levels, and promote equitable growth. The revised PDO supported capacity building to improve urban planning, financial management, and delivery of public services and proved relevant to redirecting up to 30% of revenue generated at the national level to the 47 counties created by the 2010 constitution. This devolution transformed governance, and aimed to strengthen accountability and public service delivery at the local level through increased citizen participation, building responsive and responsible local government structures, and inter-governmental relationships that translate policy into meaningful services. The PDO contributed to the government's plans to address urban conditions by strengthening local capacity, improving the quality of urban life, fostering an attractive investment climate, and the support the country’s economic growth.

The original and revised PDO were also relevant to the World Bank's Country Partnership Framework for FY 2014-2018, which is anchored on improving service delivery at local levels in support of an ambitious devolution program aligned with Kenya's 2030 vision. The PDO contributed to one of the framework's priority to "build consistency and equity, centered on devolution, to ensure effective transfer of resources and governance to the 47 new counties and to improve service delivery and opportunities for the ordinary people in these areas."

The KMP was designed using an Adaptable Program Loan (APL) instrument, which divided the overall program into two, five-year Phases. APL 1 was to strengthen municipalities so that they could effectively carry out their mandates, develop policy supporting the pertinent outcomes of constitutional reform, and finance high impact priority infrastructure investments that improve both living conditions and service delivery (PAD, paragraph 21). APL 2 would then build upon the successful systems and approaches under APL 1, and expand to include more municipalities. However, the 2015 Restructuring cancelled APL 2 and the KMP retained the name as a standalone project. The 2015 Restructuring came about because the 2010 Kenya Constitution and the March 2013 elections introduced the following institutional changes:

- Management of urban local governments. The functions and sources of revenues of 175 local authorities were taken over by 47 newly created county administrations (ICR, footnote 17). The 15 municipalities under the KMP were now under the management of 14 county governments. Only two of these county governments - Nairobi and Mombasa - retained jurisdictions similar to those of the former local authorities. Institutional strengthening activities under component 1 of the project were redirected to building the urban management capacity of these county governments.
- Management of implementation. The number of ministries were reduced from 43 to 22. The functions of the original implementing entity, the MoLG, were redistributed to two ministries. The reform function was reassigned to the MDP while the urban development function was reassigned to the Ministry of Land, Housing, and Urban Development (MLHUD), later to the Ministry of Transport, Infrastructure, Housing and Urban Development (MTIHUD). The MDP was receiving assistance from other donors and the MDP or its activities were outside the scope of the KMP. The MLHUD had the mandate to strengthen urban management but not county governments.

The 2015 Restructuring acknowledged these new institutions, revised the PDO to emphasize the project's focus on urban planning and provision of infrastructure services by county governments, and rationalized project activities and implementing arrangements. The PDO was revised from "to strengthen local governance and improve service delivery in selected municipalities" to "to improve planning and delivery of infrastructure services in urban areas in selected counties."

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

The original PDO of the KMP was "to strengthen local governance and improve service delivery to selected municipalities." This review assessed project performance into two parts: namely, (1) to strengthen local governance, and (2) to improve service delivery to selected municipalities.

Rationale

The 2010 constitution changed the government institutional set up, repealed the Local Government Act, and replaced all 175 local authorities with 47 newly created country administrations, each headed by an elected governor. The 15 KMP participant municipalities were now under county administrations. Two of these, Nairobi and Mombasa, retained their previous jurisdictions but the rest no longer had the structure to plan, manage, and govern. At the ministerial level, 22 new ministries were created, and the staff and functions of the existing 44 ministries were redistributed. The functions of the project's implementing agency, the MoLG, were reassigned to two different newly created ministries. Institutional reforms (component 1 of the KMP) were now under the Ministry of Devolution and Planning (MDP) while urban development (components 2 and 3) were now under the new Ministry of Land, Housing, and Urban Development (MLHUD), later reassigned in 2016 to the Ministry of Transport, Infrastructure, Housing and Urban Development (MTIHUD). The original key outcome indicators were:

- Number of municipalities that produced statutory annual accounts using the Local Authority Integrated Financial Operations Management System (LAIFOMS).
- Number of audited municipalities that receive unqualified audit opinions.
- Number of municipalities with council approved capital investment plans that are based on their strategic urban development plans.
- Number of municipalities whose locally generated revenues rise in line with the targets specified in revenue enhancement plans using revenue potential analyses.
- Number of direct beneficiaries, and percent share of women.
- Percent of constructed infrastructure that are maintained and are operational.

OUTPUTS:
The following targets were achieved:

- Completed 1 model restructuring guide for establishing urban boards and town committees.
- Completed 1 capacity assessment tool for urban boards and town committees.
- 100% of the Environmental Management Plans were implemented in a timely manner.
- 100% of the Resettlement Action Plans were implemented in a timely and satisfactory manner.

OUTCOMES:

- The project benefited 250,000 residents of the participating local governments (target 2 million, partially achieved).
- The project benefited 125,000 female urban residents (target 1 million, partially achieved).
- The activities associated with municipalities were not undertaken because institutional changes

introduced following the ratification of the 2010 Constitution and 2013 local elections transferred the functions of municipalities to newly created county governments.

Rating
Modest

Objective 1 Revision 1

Revised Objective
To improve planning of infrastructure services in urban areas in selected counties

Revised Rationale
Following the institutional changes introduced by the 2010 Constitution and the results of the 2013 local elections, the institutional strengthening activities were re-focused toward improving the planning and management capacity of county governments.
OUTPUTS:

The following targets were substantially achieved:

- A handbook for preparing county integrated development plans was widely disseminated. The Handbook included sections that refer to institutional, spatial, and governance and accountability aspects of urban planning.
- A capacity assessment tool for urban boards and committees was used by counties to identify staffing and skills needs.
- A model restructuring guide for establishing urban boards and committees was prepared and distributed to all counties as key training reference for those participating in the KMP follow-on Kenya Urban Support Program (KUSP), which was approved by the World Bank in 2017.
- A policy was developed to transfer assets from former local authorities to newly created county governments but it is unknown how many counties were following this.
- 14 urban centers prepared capital investment plans as part of the integrated strategy for urban development (original target, 7, revised target 15)

OUTCOMES:
The following were exceeded or substantially achieved:

- 2.1 million residents, of which 50% were female, directly benefited from improved infrastructure and services delivered under the project (target 2 million)
- About 507,000 urban residents (target , substantially achieved) were protected from periodic flooding. A May 2017 Beneficiary Assessment indicated that "cases of flooding had reduced significantly ... after the construction of storm water drains." Focus group members of minibus cooperatives confirmed savings due

to reduced repairs and business disruption. People interviewed in an audit of environmental and social safeguards compliance, confirmed that the April May 2017 rains did not flood the usual areas.

- 11 of the 14 integrated strategic urban development plans have been approved by county executive committees while the rest were awaiting approval. Three plans were approved by county assemblies. County governments, like Mombasa, were using the plans to inform future infrastructure projects, based on evidence obtained from the Beneficiary Assessments. Under the 2012 County Government Act, counties prepare 5-year county development plans. The project trained staff of nearly all 47 counties based on the Handbook and built capacity of county staff who generated the integrated urban development plans.

The following outcome was partially achieved:

- 69,200 urban residents (target 170,000) gained access to all season roads within a 500-meter range under the project. The government dropped some contracts for roads and drainage following the 2015 Restructuring primarily because the Mombassa drainage cost overruns reduced available resources(see Section 5. Efficiency).

The following indicators were dropped as a result of the 2015 Restructuring:

- at the national level - strengthening of intergovernmental fiscal frameworks to enhance volume and predictability of resources transferred to municipalities based on their performance;
- implementing a financial management information systems at the urban level;
- implementing the annual performance assessment of participating municipalities;
- developing revenue enhancement plans for each of the participating municipalities;
- supporting the annual audits of municipal financial statements; and
- strengthened accountability of municipalities.

Revised Rating
Substantial

Objective 2
Objective
To improve service delivery to selected municipalities.

Rationale
OUTPUTS:
The following outputs were substantially achieved:

- 15 km of roads were constructed or rehabilitated (target 16 km)
- 15 fire engines were delivered to counties (target 15)
- 3 markets were constructed (target 5)

The following outputs were partially achieved:

- 24 km of drainage were constructed or improved (target 140 km)
- 10 km of pavements were constructed or rehabilitated (target 137 km)
- 200 street lights were installed (target 880)
- 5 feasibility studies and detailed design for future investments were prepared (target 12)

OUTCOMES:
The following targets were partially achieved:

- 25,000 urban area residents have access to all-season roads within 500 meters of project area (target 170,000).
- 200,000 urban residents benefited from reduced periodic flooding due to improve drainage (target 525,000)

The following target, which was revised in anticipation of the forthcoming restructuring was not achieved:

- no integrated strategic urban development plans were approved by county assembly or gazetted (target 13)

Rating
Substantial

Objective 2 Revision 1

Revised Objective
To improve delivery of infrastructure services in urban areas in selected counties

Revised Rationale
OUTPUTS:
The following targets were exceeded:

- Constructed and rehabilitated 202.2 km of non-motorized transport links (target 137 km, exceeded).
- Installed 1,220 security lights and 34 high-mast security lights in nine urban centers (target 887, exceeded).

The following targets were achieved:

- Fire engines with 10,000 liter capacity were delivered to 15 urban centers.
- 12 feasibility studies and designs were prepared for future investments, such as storm water drainage, non-motorized transport, solar lighting for public facilities, traffic lights and automation of bus parks,

information technology systems, and infrastructure to support municipal asset management, markets, access roads, and bus parks for the follow-on and World Bank-approved KUSP.

The following targets were partially achieved because project financial resources were redirected to meeting the cost overrun for the Mombasa drainage project:

- Constructed and rehabilitated 62.6 km of drains (target 90 km).
- Constructed and rehabilitated 23.74 km of roads (target 34.60 km).
- Constructed 3 markets - a hawker's market in Eldoret, two livestock markets, one in Garissa and another in Machakos (target 5).

OUTCOMES:

- Constructed and upgraded roads improved access to markets and services and have reduced travel time for urban residents.
- The non-motorized transport links like the pedestrian and bicycle paths reported heavy use according to the post project beneficiary assessments. In Mombasa, 74% of residents walked to work or study and reported that some 15,400 residents use the walkways everyday. Users of walkways also numbered 17,000 in Thika, 5,700 in Nakuru, and 6,000 in Eldoret. Another study cited the improved pathways as having reduced accidents between cyclists, pedestrians, and motor vehicles. The walkways improved walking comfort and cycling speeds and improved motor vehicle speeds because pedestrians and cyclists did not share the roads with them.
- The hawker's market in Eldorect was not fully occupied but the two livestock markets were providing benefits to traders who reported increased earnings on average of Kshs. 13,300 per market day compared to Kshs. 4,680 prior to construction. The county was collecting Kshs. 560,000 per day and about Kshs. 28 million per year, becoming an important source of revenue for the county.
- Security lights in the nine urban centers provided safety and security and facilitated businesses to be conducted after dark. The beneficiary assessments indicated that 98% of Nakuru residents, 96% of Kericho residents, and 91% of Kakamega residents confirmed that the street lights have improved security in their respective areas.
- The fire engine in Nauru responded to 29 emergencies in 2016, 38 in Eldorect, 22 in Kericho, and 18 in Kakamega. In some cases, the fire engines also responded to emergencies in neighboring urban centers.
- The Resettlement Action Plans were satisfactorily implemented. Compliance audits found a few cases of traders who set up stalls in public lands moved voluntarily away without being informed of their compensation rights due to temporary loss of income. The compliance audits did not allow for calculating the share of the RAPs that were not satisfactorily implemented but the Bank team assessed that the target was met.

Revised Rating
Substantial

Rationale

Pre restructure the project was judged to have a Substantial overall Efficacy rating. Post restructure, both objectives were rated Substantial therefore leading to a Substantial overall rating.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic Efficiency: At appraisal, no project economic efficiency analysis was undertaken because of the framework nature of the project, i.e., specific investments that require economic efficiency analysis were not known prior to the credit approval. Cost-benefit analysis or cost-effectiveness analysis formed part of investment proposals to be submitted to the implementing agency, prior to approval and the Bank's no objection. Feasibility studies were not required for investments below US$0.5 million but proponents were expected to carry out cost-effectiveness analysis. There were no cost-benefit analysis conducted for institutional strengthening, urban planning, and project management components of the project (PAD, paragraph 69). The ICR noted that 88% of the investment projects were in drainage and non-motorized transport facilities. Cost-benefit analysis for the Mombasa drainage showed an IRR of 32% and benefit-cost ratios of 2.8. Sensitivity analyses where costs increased by 20%, benefits decreased by 20% and both costs up by 20% and benefits down by 20% resulted in benefit-cost ratios of 2.0, 1.9, and 1.3 respectively. Other benefits from the improved drainage system were not included in the calculation of the ratio, which would have increased it favorably. These include reduced property damage, increased property values, reduced loss of income in business when hours are curtailed and access reduced, improved travel times on streets that now avoid flooding, lower vehicle maintenance costs, and reduced costs of illness associated with exposure to pollutants and stagnant water. The benefit-cost ratio indicating economic efficiency for non-motorized transport facilities in Mombasa ranged from .74 for cycle paths, to 17.22 for footpaths, and 17.56 for traffic calming measures such as speed bumps and zebra crossings.

Implementation (Operational and Administrative) Efficiency: There was a two-year delay in implementation to accommodate new government structures following the 2010 constitution, the subsequent 2013 elections, and the corresponding change in implementing entity. The 2010 constitution devolved many functions from national ministries to autonomous counties, creating tensions between the various actors of the project. Some county governments wanted to take over procurement and financial management (ICR, paragraph 50). There were operational inefficiencies attributed to the new MTIHUD that sometimes led to lengthy delays in procurement and extensions in the closing dates of ongoing contracts.

The project's framework structure meant that design and construction of investment projects identified during implementation would require more than the five-year implementation period. Another factor that negatively impacted operational efficiency was the cost overrun in the Mombasa drainage contract. Originally budgeted for US$ 17 million, the contract rose to US$25.4 million, thus reducing available funds for other investment projects that were already in various stages of procurement. These had to be dropped and reflected unmet targets that were included in the results framework. The cost overrun for the Mombasa drainage was due to initial poor design prepared by the municipal government at the start of the project (ICR, paragraphs 53-54).

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate	✓	2.80	65.00 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Following guidelines for split rating, the project's overall outcome rating is moderately satisfactory, as shown below.

		BEFORE RESTRUCTURING	AFTER RESTRUCTURING
Relevance of Objective			Substantial
Efficacy		Substantial	Substantial
	PDO 1	Modest	Substantial
	PDO 2	Substantial	Substantial
Efficiency Ratings			Modest
	Outcome Rating	Moderately Satisfactory	Moderately Satisfactory
	Numerical value of Outcome Rating	4	4
	Disbursement	US$59.83 million	US$107.91 million
	Share of Disbursement	55.4%	44.6%
	Weighted value of Outcome Rating	4x0.554 = 2.22	4x0.446 =1.78
	Final Outcome Rating		Moderately Satisfactory = 4 =

			2.22+1.78

a. Outcome Rating
Moderately Satisfactory

7. Risk to Development Outcome

The following pose risks to the development outcome:

- **Political, Government and Other Stakeholder Ownership**: There is a risk that the government's political will as well as those of the county authorities assisted under the project may waver in sustaining the investments made under the project. To mitigate this risk, the Bank approved, in July 2017, a new follow-on US$300 million operation, the Kenya Urban Support Program (KUSP), to help sustain the KMP-supported infrastructure by offering incentives to adopt the integrated strategic urban development plans prepared under the project and provide training on capital asset management. The project helped the government develop the US$1 billion Kenya Urban Program to address the challenges facing urban areas. The project also facilitated consultations on a key piece of legislation, the Urban Areas and Cities Act, which prescribed the institutional arrangements for establishing and managing urban areas. The cabinet approved a National Urban Development Policy (NUDP) framework to articulate how the government would tackle urban challenges to achieve the country's Vision 2030 goals.

- **There is a risk that counties who have prepared their Integrated Strategic Urban Development Plans (ISUDPs) will not realize the benefits offered by these plans.** The follow-on KUSP operation included two performance measures that guide future urban development: (i) urban integrated development plan submitted by the administrator, and reviewed and approved by the board; and (b) urban spatial plan completed and approved. Urban centers that prepared ISUDPs under the KMP would comply with these performance standards by ensuring that their ISUDPs are approved by the relevant authorities.

- **There is also a risk that operations and maintenance (O&M) needs of infrastructure investments funded under the project would not receive adequate county budget resources.** By project closing, storm water drainage in some places was clogged with solid wastes. Some street and high mast lights were vandalized and remained unrepaired. Some fire engines were idle because of a lack of budgets for spare parts. To mitigate this risk, the ministry's project management team (the same one who implemented the KMP) would develop guidelines for O&M of infrastructure investments, and provide training and backstopping support. Also, counties and urban centers participating in the project will be supported in areas such as ownsource resource mobilization, capital investments planning, and O&M use.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project built on lessons from the Kenya Local Government Reform Program, financed in part by the European Union and from Bank-financed urban and local government operations in other countries. Design considered the government's strategies for urban development. Technical, financial, economic aspects of project components were adequately considered even though the investment projects to be financed would only be identified during project implementation. There were procedures in place to ensure compliance with safeguards (environmental management and social safeguards). A results framework was included at entry but four of the six PDO indicators were outputs and not outcomes. Indicators did cover all aspects of the results areas. A baseline for target indicators was established (values were at zero) and appropriate target values were established, except for infrastructure investments, which were to be identified during implementation. An M&E system was to be ready by the time the project became effective. Arrangements for monitoring and reporting were agreed. Appraisal of implementation arrangements was satisfactory with agreements reached on the roles and responsibilities of the Ministry of Local Government and of urban local governments. The PAD specified the risks the project would face and identified adequate mitigation measures. A detailed operational risk assessment framework was not required at the time the PAD was prepared. However, the team prepared one in September 2011, noting appropriately as a key risk that "except for Nairobi and Mombasa, city administrations participating in the KMP face uncertainties of their roles and responsibilities under the new constitution, and may hesitate to implement activities until they receive some clarity." A drawback in the quality at entry was the framework structure of the project. This meant that a five year implementation period may not have been sufficient to identify, design, and construct infrastructure projects.

Quality-at-Entry Rating

Satisfactory

b. Quality of supervision

Bank performance in supervision was satisfactory. Supervision was thorough with 13 missions during the project's seven years of implementation. With key members of the Bank's KMP team intact, there was seamless transition among the five task team leaders, all except for one was based in Nairobi to support both the Bank team and counterpart authorities on a daily basis. An urban planner spent several months in Kenya to support the preparation of ISUDPs. An international infrastructure engineer provided in-depth support to the KMP team to determine the new scope of the Mombasa drainage contract and agree on the way forward. Representatives of Sida participated in most of the missions and provided inputs to the aide memoires. Implementation aide memoires were candid and the Bank team at some point admitted to using these to provide the implementing entity with incentives to resolve implementation issues.

The Bank proactively worked with the government to restructure the project to reflect the changes in the government institutional set-up following the implementation of the 2010 constitution. It took two years from the 2013 Mid Term to the 2015 Restructuring to work out the details of the restructuring because the national government was delayed in issuing subnational performance grants guidelines, and the county governments had not yet established urban management institutions.The Bank restructured the project without the performance-based grants to counties. The MLHUD KMP team continued to procure and manage contracts on behalf of the counties during those two years and was ready to implement revised components by the time Restructuring was approved. After the 2015 Restructuring, the Bank reported on progress towards the PDO outcome targets, rated project performance indicators realistically, and addressed issues of performance of financial management, procurement, and compliance with safeguards with more training. The Bank team reported on the functioning of the project's M&E system in each aide memoire, noting improvements and areas requiring further strengthening. One intermediate results indicator--"the proportion of environmental management plans implemented satisfactorily"--proved intractable but was not dropped.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

At appraisal, the PAD noted that the project would finance a detailed M&E and reporting system to be ready by the project effectiveness date (PAD, paragraph 64). As a result, the M&E design was not available at appraisal. The PAD noted that the results framework with PDO and intermediate results indicators, and baseline values of zero for all indicators (PAD, Annex 3) would guide the design of the M&E system. Target values for infrastructure were "to be determined" during implementation. The six PDO outcome indicators covered the two objectives of the project (to strengthen local government, and to improve municipal services). However, most of the indicators (4 of 6) represented outputs rather than outcomes. One intermediate outcome indicator also proved hard to measure - the proportion of environmental management plans implemented satisfactorily" (see below). The project M&E design included end of Phase 1 surveys of service delivery (beneficiary assessments) (PAD, paragraph 62). M&E design was embedded at the national and local government levels.

The 2015 Restructuring revised the PDOs to better address the new institutional set up resulting from the 2010 constitution, which replaced municipalities and urban local governments with counties, functions that have devolved from former interlocutors to new agencies and no longer within the scope of the project as designed, and dropped activities no longer relevant to the revised PDO. New outcome indicators were added to reflect the narrowed focus on urban management, and targets for infrastructure were added. The new indicators addressed the revised objectives of urban planning and delivery of urban infrastructure services. In 2013, the Bank financed a comprehensive survey of 1,400 household heads to generate baseline data on living conditions of the 15 participating municipal governments as part of the "Kenya State of the Cities Baseline Survey, which were key to the Bank's Kenya Urbanization Review, a separate undertaking outside of this project but which provided data for the original 15 participant municipalities.

b. M&E Implementation

The M&E system was implemented by first appointing an M&E specialist to the MTIHUD KMP team. M&E data were collected from county governments and other stakeholders based on the revised Results Framework. Quarterly project progress reports especially in the last two years of project implementation improved and were reported satisfactory. Ownership of the M&E system was evident in the regular visits made by the M&E team to participant cities to document progress and document impact from project investments and its use as basis for supervisory mission discussion of project progress (see below on Utilization). End-of-project beneficiary assessments were conducted to document project outcomes. The M&E system was fine tuned as the project was implemented as reported in the Bank team's aide memoires.

c. M&E Utilization

The project team generated progress reports to inform discussions during implementation support missions and helped identify challenges and measures to address them. Information generated by M&E reframed implementation strategy. For example, slow implementation of works contracts during the initial period were discussed and the Bank responded with intensified training (see also Section 8, Bank Performance). M&E findings were disseminated and informed the direction of the project. For example, redirecting resources to address the cost overrun in the Mombasa drainage project meant that other infrastructure investments could not be realistically implemented and were dropped.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project was assigned an Environmental Category B for the purposes of OP/BP 4.01, which requires a partial environmental assessment. Two other safeguards were triggered (ICR, paragraph 64, PAD, paragraphs 90-92) - Cultural Property (OP/BP 4.11) and Involuntary Resettlement (OP/BP 4.12). The project followed a flexible design where investments to be financed were demand-driven, subjected to a screening process to ensure that technical selection criteria were met and environmental and social issues were adequately addressed (PAD, paragraph 86). For example, some Environmental and Social Impact Assessments were prepared after the design of the infrastructure, instead of before to inform technical design. The environmental and social safeguards specialists left their positions in 2013 and those positions went unfilled for over a year. The Bank conducted refresher training courses in safeguards in 2014. There were no significant issues with implementation of Resettlement Action Plans (RAPs), as very few people were affected by the construction of the infrastructure, and those who were affected were informal traders who moved temporarily to nearby locations to conduct their business. Most environmental management plans (EMPs) prepared as part of the detailed designs for infrastructure were implemented satisfactorily. The supervising consultants monitored and reported on implementation of the EMPs in the monthly and quarterly site reports submitted to the project team to ensure that the activities specified in the works contracts were undertaken. The main shortcoming noted was lack of compliance by the contractors with occupation, health, and safety measures during construction. The Bank carried out an audit of KMP's compliance with safeguards requirements, which did not find major shortcomings and made recommendations for improvement. Over time, compliance with safeguards requirements improved.The project was expected to have minimal social and environmental impacts due to the small size of the works on existing wayleaves. However, the ICR rated overall safeguards performance as moderately satisfactory because of compliance gaps in the early years of the project implementation due to capacity constraints of the implementing agency (ICR, paragraph 64).

b. Fiduciary Compliance

Financial Management: The ICR noted that compliance with the project's financial management was moderately satisfactory (ICR, paragraph 65) The ministry generally complied with the Bank's fiduciary policies, with some shortcomings. The implementing agency had adequate financial management capacity with a qualified full-time project accountant. The budgeting and accounting arrangements were assessed as adequate. The project complied with the financial reporting arrangements, quarterly interim financial reports and annual audit reports submitted to the Bank as required. The Project had disbursed 100 percent of IDA/Sida funds by time of closing on May 30, 2017. Some weaknesses were noted in the funds flow, internal controls, and audit arrangements. The annual audit reports for fiscal 2016 and 2017 received qualified audit opinion. Some weaknesses were noted in the internal controls, including delays in recovery of staff advances and imprests, limited segregation of duties, and contract management challenges. There were ineligible expenditures in fiscal 2015 of Kshs. 2.5 million, which the KMP refunded. There were also delays in disbursing funds. By the time of project closing, these issues had been addressed.

Procurement: The ICR noted that compliance with the project's procurement procedures was also moderately satisfactory (ICR, paragraph 66). The KMP team had difficulty complying with the Bank's procurement procedures, particularly in the early years of implementation, which led to delays in the execution of some activities. There were some issues with proper and complete procurement and contract records keeping, delays in contracts procurement processing and less proactivity in contracts monitoring. The Bank team closely monitored compliance and developed action plans to improve performance. By project closing, the MTIHUD procurement systems and arrangements were functioning well and major works, goods, and consultancy services contracts were completed.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Bank Performance	Satisfactory	Satisfactory	---
Quality of M&E	Substantial	Substantial	---
Quality of ICR		Substantial	---

12. Lessons

The ICR presented eight lessons from this operation and some are listed below:

- Restructuring can be an effective tool to respond to government pursuit of significant institutional changes. In this case, the new Constitution, repeal of the Local Government Act, and the outcome of the 2013 elections laid the groundwork to rationalize project implementation. The restructuring allowed for revising the objectives, the outcome indicators, and implementing arrangements to align with government priorities.

- Subnational governments can be effective partners of the national government to achieve equitable growth. When supporting subnational capacity development, creative engagement could be undertaken to promote ownership of investments implemented on their behalf. For example, when the county governments expressed their preference to implement local projects themselves, the national government, aware of the untested local capability to manage infrastructure projects, responded by enjoining local authorities to participate in all aspects of implementation, particularly in supervising construction works and consulting services. In addition to fostering ownership, the sustainability needs of urban services need to be addressed through periodic training and budgetary support for O&M needs of capital investments. For example, O&M budget for repairing or replacing fire engines and training in the upkeep of equipment could be part of the local budget for fire safety and emergencies.

- Subnational governments can consider infrastructure projects such as markets as investments and apply sound market analysis, a business plan, and O&M component for sustainable operations. This approach may also help engage private sector participation.

- When there are multiple consultancies doing similar work across a wide area, facilitating a mechanism where these consultants can present their approaches can benefit project recipients and help identify applicable benchmarks for future strategies. For example, conducting periodic workshops where consultants present their approach in beneficiary assessments or formulating capital investments allow for comparing results across participant local governments.

- Feasibility studies for solid waste management, markets, and bus parks, need to be conducted only after an adequate site has been identified. This approach avoids cancelling contracts when the government could not obtain appropriate project sites.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

This ICR was concise, internally consistent and followed the revised OPCS guidelines that applied to ICRs completed after July 1, 2017. The ICR provided evidence of the rationale behind the revision of the original PDO, the decision to reduce the original 2 phased program to a standalone project, and the adequate response of the project management team to implementation challenges due to institutional changes as the project was underway. The ICR was results oriented, clearly discussed the theory of change accompanying project design, and provided lessons based on adequate analysis of evidence from project implementation. For example, the lesson that feasibility studies for solid waste, markets, and bus parks, need to conducted only after an adequate site has been identified is based on the experience from this project where contracts had to be cancelled because the government could not obtain appropriate project sites.

a. Quality of ICR Rating

Substantial